

# **Eurelectric's response to ENTSOE on the algorithm methodology review, incl. SIDC and ID auctions**

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A Eurelectric position paper

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

## We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

**investing** in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

**transforming** the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

**accelerating** the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

**embedding** sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

**innovating** to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Eurelectric thanks the TSOs and NEMOs for organizing this consultation. The related documentation is informative on the process that will be implemented as a result of ACER's Decision 2019/01 mandating the introduction of 3 intraday auctions. Nevertheless, Eurelectric regrets that all documents are not presented in track changes (only some are), and that the consultation does not include an explanatory document highlighting the motivations and approach for the changes.

As a reminder, in its response to ACER consultation on capacity pricing of November 2018, Eurelectric opposed the introduction of intraday auctions, mainly for three reasons:

- i) the introduction of those auctions will be detrimental to the liquidity of the SIDC platform based on a continuous market, deteriorating therefore the quality of energy price signals in the intraday time frame. Most trading and re-trading is done close before real time. This is the timeframe market parties need all the flexibility to protect them from exposure before the balancing market.
- ii) Extracting congestions rents is not a prerequisite for non-discriminatory allocation of XZ capacity. A liquid continuous intraday is able to do that through continuous trading and re-trading.
- iii) fears that the technical solution to manage European-wide auctions in the ID time frame would not support the required level of granularity/complexity of bids, leading to a step back with respect to the continuous implicit allocation based on the XBID algorithm.

Eurelectric has taken note of ACER decision, and considers that its concerns remain. Eurelectric advocates therefore for their consideration, when designing the route towards a swift and efficient implementation of the mandated ID auctions.

### **Failure of the IDA algorithm**

Eurelectric acknowledges and recognizes the relevance of using the same algorithm for European intraday auctions, as for the single day-ahead coupling. However, considering the possibility of failure of pan-European auctions, as for June 7<sup>th</sup> 2019 for example, the algorithm documentation should include details on the conditions for considering that the auction is failing and switching to the alternate efficient solution for capacity allocation, i.e. the coupled continuous intraday markets. To be more specific, Eurelectric highlights that due to even more restrictive time constraints in the ID time frame, a strict time limit should be set for considering that an ID auction does not deliver and switching to a capacity allocation within XBID instead of maintaining continuous market suspended.

### **Interruption of the continuous allocation (Article 5)**

Article 5 specifies that the ID continuous allocation might be suspended 15 minutes before the auction, because the market participants should be informed of the NTC. This limitation does not seem necessary. Indeed, market participants have a continuous visibility on the use of the ATC within XBID and only need to be aware of the relative change (delta and resulting ATC) that will be applied during the auction. The latter can be announced 15 minutes before the auction without stopping the continuous allocation until the auction.

As of the time delay for clearing the auction, Eurelectric recalls the framework set by Article 63 of the CACM Regulation for the complementary regional auctions, which should in Eurelectric's view be also applicable for the pan-European intraday auctions prescribed by the ACER decision. This Article mandates that the continuous capacity allocation shall not be suspended for more than 10 minutes, not only in normal operation. In Eurelectric's view, if the IDA algorithm does not deliver

efficient results within 10 minutes, then the auction should be considered as failed and capacity should be allocated within XBID. Should this 10 minute limitation be disregarded, Eurelectric considers that the longer time would allow the MCO to inform market participants, 5 minutes before the maximum clearing time is reached, about the likelihood that the auction is cancelled and the capacity released within the continuous intraday allocation.

As of Article 63 of the CACM Regulation, Eurelectric also calls for the clarification by NRAs and by the EC that the implementation of the intraday auctions mandated by ACER will allow for the immediate phase out of all regional complementary auctions.

### **Products (Article 6)**

As of the products to be addressed by the ID auctions, Eurelectric considers that there should not be any step back with respect to what has been previously allocated with the continuous allocation process.

In particular, as XBID makes it possible to allocate cross-zonal capacity with a 15-minute granularity (or the longest imbalance settlement period at the border) from 15.00 DA onwards, Eurelectric considers that re-allocating cross-zonal capacity with hourly products after the IDCZGOT would :

- i) significantly reduce the benefits of the auctions as regards cross-zonal capacity allocation, as hourly NTC to be allocated would be set at the smallest value among the 4 quarters of the hour, whereas there may remain significant available capacity for a specific quarter that could be efficiently allocated with 15 minute granularity.
- ii) send inconsistent signals to market participants in comparison with prices on the continuous markets

Eurelectric is also concerned by the risks that technical issues lead ultimately to major step backs, as it was already experienced before the XBID go-live. For example, we are concerned that the range of complex products actually available for the SDAC and within XBID is reduced, to allow the IDA algorithm to run within a shorter period.

### **Flow-Based (Art 6)**

Eurelectric does not see any relevant obstacle to the implementation of the flow-based capacity allocation in ID auction, even if such advanced capacity allocation is not managed with the continuous allocation.

Allowing Flow-Based capacity allocation with the Intraday Auctions is specifically mentioned by ACER in its recommendation 2019/01 as a benefit of their introduction, all NRAs' letter specifying that "TSOs should enable the flow-based capacity calculation within the IDA procedure". We would therefore recommend that this development is made before the go-live of the intraday auctions.

### **Go live**

These challenges are key for the well-functioning of intraday markets, and need to be seriously considered. From this perspective, Eurelectric would recommend to condition the go-live of ID auctions to the achievement of a satisfactory level of performance, including:

- i) Aligning the product range on what is actually managed with the XBID algorithm
- ii) And achieving consistent results in less than 10 minutes with a very high level of reliability (e.g. less than 3 auctions failed each year)

Eurelectric would thus recommend to set a hard dead line (e.g. 2021) for the technical developments rather than for the go-live, and a relative dead line (e.g. 6 months after the achievement of the appropriate level of performance) for the operational go-live.

### **Ownership & funding of the algorithm**

Eurelectric acknowledges that the technical challenges to achieve an efficient auction algorithm are significant. Addressing those involves major development of the MCO function. From this perspective, Eurelectric invites other stakeholders (incl. TSOs, NEMOs, and NRAs) to consider the opportunity of having the SDAC and SIDC algorithms developed in open source.

This would have major benefits at low cost :

- Full transparency on the solution actually used;
- Possibility for academics or stakeholders to propose and test new developments;
- No proprietary issue, when contracting service providers for the development of specific modules

### **Governance**

Eurelectric would welcome the consideration of the market participants in the governance and assessment bodies of the SDAC and SIDC algorithms. Market participants are indeed directly impacted by those development and their views should be systematically considered before decisions are made.

In particular, it would be relevant to organize a stakeholder committee with representatives from the main users' associations that will monitor the performance of the algorithm, potential updates, discuss the possible delays in implementation, and provide feedbacks from the users.

### **Miscellaneous**

The annex on SDAC refers to the "total number of bidding zone lines". Eurelectric does not understand the exact nature of such information, and to which extent this is a meaningful indicator in a zonal market setting where all relevant constraints are to be summarized in cross-zonal capacities between interconnected bidding zones.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability



Union of the Electricity Industry - Eurelectric aisbl  
Boulevard de l'Impératrice, 66 – bte 2 - 1000 Brussels, Belgium  
Tel: + 32 2 515 10 00 - VAT: BE 0462 679 112 • [www.eurelectric.org](http://www.eurelectric.org)  
EU Transparency Register number: [4271427696-87](https://ec.europa.eu/transparency/regexp1/index.cfm?do=entity.entity_details&entity_id=4271427696-87)